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**STATEMENT OF**  
**THE SECRETARY OF DEFENSE**  
**WILLIAM J. PERRY**  
**BEFORE THE**  
**SENATE APPROPRIATIONS COMMITTEE**  
**IN CONNECTION WITH**  
**THE BALANCED BUDGET AMENDMENT**  
**FEBRUARY 15, 1994**

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**STATEMENT OF SECRETARY OF DEFENSE WILLIAM J. PERRY  
IN CONNECTION WITH THE BALANCED BUDGET AMENDMENT  
SENATE APPROPRIATIONS COMMITTEE  
FEBRUARY 15, 1994**

Mr. Chairman, members of the committee, it is a pleasure to be here today to discuss the likely impact on America's defense posture of the Balanced Budget Amendment now being considered in Congress.

The Balanced Budget Amendment (BBA) could severely jeopardize America's national security, and that is one of the major reasons for the Administration's opposition to it. Defense could end up being the primary bill payer to make federal budgets balance, and that would fundamentally undermine the security of our nation.

The BBA would threaten frequent interruptions to the many long-term processes that are essential to maintaining a prudent defense posture. For example, it takes 16 years of schooling and proper assignments to prepare a battalion commander to lead troops into combat. The average major weapons procurement program requires 8 years of development and testing. Production lines are necessarily set up anticipating stable production rates. Repair parts must be ordered three years ahead of anticipated use, in order to ensure the readiness of U.S. forces. In sum, it would be extremely costly, and essentially unworkable, to turn on and off defense programs, when the BBA forced deep budget cuts.

If the Balanced Budget Amendment were adopted, America's defense posture would be vulnerable to two different problems: the impact on defense to reach a zero deficit and the effect on defense of the annual budget process under the BBA.

**IMPACT ON DEFENSE TO GET TO A ZERO DEFICIT**

(Chart 1) To illustrate the impact of getting to a zero deficit, several assumptions have to be made about the final date and provisions of the BBA. Let us assume that the year of BBA implementation is 1999, and make calculations based on current deficit projections in the President's budget. Balancing the budget on a phased basis--20 percent per year from 1995 through 1999--would require a total of \$540 billion in spending cuts and/or revenue increases.

(Changing the implementation date of the BBA to 2001 would change my calculations, but not lessen the likely damage to defense.)

Exactly how much the Department of Defense (DoD) would have to contribute to achieving a zero deficit would depend first on how much revenue would be increased. My model considers two

possibilities: no increase in revenues, and a 50-50 split between revenue increases and spending cuts. My model also considers two scenarios regarding entitlements: no cuts in entitlements, and cuts to entitlements in proportion to outlays, which means half the spending cuts would come from entitlements.

(Chart 2) If we array these two pair of alternatives, four illustrative impacts result. With the assumptions and alternatives in my model, FY 1995-99 DoD budget cuts could range from \$60 billion to \$270 billion.

(Chart 3) Achieving these totals would entail substantial reductions to defense people and programs, which would be in addition to the severe cuts already made or planned. We have compiled illustrative cuts to show the severity of the actions that would be required to eliminate the deficit by 1999; these cuts have a range depending on whether defense must be cut \$60 billion (the best case) or \$270 billion (the worst case--no revenue increases and no entitlement cuts):

Active military personnel. Cut by 60,000 up to 275,000. By 1999 our plans already call for active strength to fall to 1,452,700--more than 700,000 below FY 1987. Levels will fall by 86,000 in FY 1995.

National Guard and Reserve. Cut by 40,000 up to 170,000. This latter worst case cut would dwarf our carefully planned reduction of 119,000 reservists by 1999 (from FY 1994 levels).

DoD civilians. Reduce by 30,000 to 125,000. Our plans already take levels down to 794,000--about 30 percent below FY 1987.

To reach a zero deficit by 1999, infrastructure and weapons systems also would take drastic cuts. For example, under the worst case (\$270 billion) DoD might have to:

Bases/Depots. Close 22 additional bases and 9 depots--beyond the many closures already planned.

Aircraft. Terminate the F/A-18E/F aircraft and C-17 transport, and stretch development of the F-22.

Ships. Cancel the next aircraft carrier, third Seawolf submarine, and new attack submarine--which would not only deprive our forces of these valuable systems, but would also devastate our nation's future ability to construct such vessels.

Theater Missile Defense. Cancel most of our TMD efforts, preventing development of much-needed protection for our forces.

Science and Technology. Cut S&T funding drastically, which would undermine the long-term combat superiority of U.S. weapons.

M-1 Tank. Cancel the upgrading of the M-1 tank, which would have the added consequence of threatening our nation's long-term ability to produce such vehicles. (This cancellation would have to be considered even under the best case.)

Other actions. Shift the Army's Commanche helicopter program to technology demonstration only; cancel numerous improvements to communications, electronics, and intelligence systems; and delay or cancel virtually all other modernization programs.

Reductions such as these would fundamentally change the character of America's military posture, make our new strategy unsupportable, call into question our ability to fulfill U.S. commitments to our allies, and undermine America's global leadership. And if \$270 billion had to be cut by 1999, the high readiness and quality of America's armed forces could not be ensured.

(Chart 4) This \$270 billion worse case is in fact not as bad as things could get. Small changes in the U.S. economy would mean even bigger budget problems. Using the Congressional Budget Office's rule of thumb, a one percent rise per year in interest rates would increase the federal budget deficit \$5 billion in the first year and \$108 billion over five years. A one percent fall per year in real growth in the economy would increase the deficit \$9 billion in the first year and \$289 billion over five years. Thus under the BBA, even modest changes in the economy could trigger sweeping cuts to federal programs.

#### THE ANNUAL BUDGET PROCESS UNDER THE BBA

What about the effect on defense of the annual budget process under the Balanced Budget Amendment? The BBA annual budget process could routinely end up removing from our elected political leaders the decision about what level of defense spending is prudent. America's defense preparedness could get determined by economic shifts, cost growth in entitlements, and other non-defense factors. Even if threats to America's global interests were increasing or our forces deteriorating, the BBA could lead to deep defense cuts.

The fact that these consequences could be avoided with 3/5 approval of each house of Congress is no safeguard. Preservation of an adequate defense posture would become dependent on exceptional political efforts. The BBA process would be heavily skewed in favor of cutting defense to compensate for whatever was escalating elsewhere in the budget. Even when a 3/5 majority minus one in either house believed that BBA cuts were unjustified, the minority view would prevail. Not exactly ideal for the world's most powerful democracy and best hope for future peace and stability.

Budgeting under BBA would inject great uncertainty and chaos into defense planning, which needs to have stability and a long-term perspective. Many years of research and development are needed to ensure that our forces are never outgunned or outmaneuvered. Production lines should not be stopped and started, in order to offset a downturn in revenues or surge in entitlements.

Because of the long-lead times needed for our weapons systems, DoD is unique among executive departments in that we must have detailed five-year plans incorporating them. We cannot start and stop programs. Moreover, our military and civilian professionals require extensive training and experience. We cannot recruit and retain top-notch military and civilian professionals, if they are vulnerable to summary dismissal.

Defense programs would be especially vulnerable under the BBA, because DoD accounts for about half of all discretionary spending. And that is critical because the BBA has no implementation details. Unless the BBA becomes a vehicle by which revenues are increased or entitlements cut, DoD would probably have to pay for half of every dollar of deficit reduction.

#### CLOSING

The Balanced Budget Amendment addresses a very important issue, but is not the way to instill fiscal discipline in the federal government. And it certainly is not the way to ensure America's strong political, economic, and military leadership in the world.

DoD budget authority, in real terms, has been in decline since FY 1985, and that will continue--as we reshape our defense posture for the post-Cold War world. We are reducing our forces and budgets substantially, but prudently. The Balanced Budget Amendment would cut defense spending to whatever level its arbitrary formula dictated, and thereby displace the carefully considered judgments of Members of Congress, Presidents, and civilian and military leaders as to what spending is necessary and wise. I do not believe such an approach to questions of national security would serve America well.

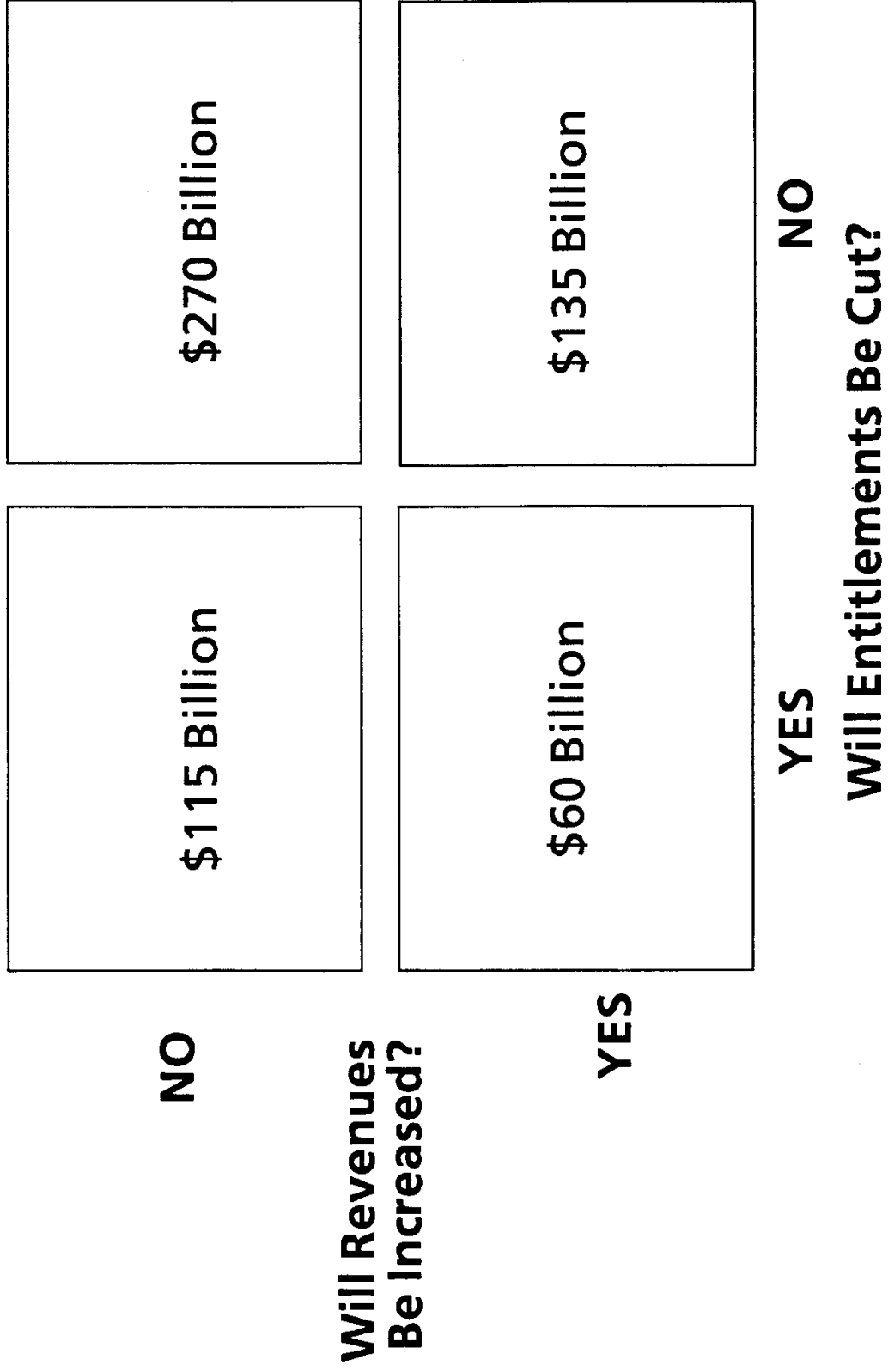
# IMPACT ON DEFENSE TO GET TO A ZERO DEFICIT

In order to assess the impact on DoD, assumptions have to be made about final date and provisions of the Balanced Budget Amendment:

## Assumption

- Year of Implementation.....1999
- Projected Deficit at implementation..... Current Budget projection
- Will Revenue be increased?.....If yes, 50%/50% revenue/spending
- Will Entitlements be cut?..... If yes, in proportion to outlays

# How Much Might DoD Have to Cut 95-99?



# IMPACT OF CUTS ON NATIONAL DEFENSE

	<u>Best Case (\$60B )</u>	<u>Worst Case (\$270B)</u>
Active Military Cut	60,000	275,000
Nat'l Gd/Res Discharged	40,000	170,000
Additional Civilians Fired	30,000	125,000
Additional Bases Closed	5	22
Additional Depots Closed	2	9
F/A-18 E/F Aircraft	Delay	Terminate
C-17	Stretch	Cancel
F-22	-----	Stretch Development
Ships	Reduce DDG-51 From 3-2	Cancel Carrier, SSN-23 & NAS
TMD	Reduce TMD	Cancel most TMD
Science & Technology	No growth	Cut drastically
M-1 Tank	Cancel Upgrade	-----
Commanche	-----	Cut to Tech effort
Comm/Elect/Intel	Delay improvem'ts	Cancel improv'm'ts



# SMALL ECONOMIC CHANGES MEAN BIG BUDGET PROBLEMS

- Modest changes in the economy would necessitate sweeping program cuts.

## CBO Rule of Thumb

	Deficit Impact	
	<u>First year</u>	<u>5-Years</u>
1% Rise in Interest Rates	\$5B	\$108B
1% Fall in Real Growth	\$9B	\$289B

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### **Perry says balanced budget amendment 'extremely costly'**

Defense Secretary William J. Perry testified yesterday that a balanced budget constitutional amendment would be "extremely costly and essentially unworkable" for the Defense Dept., which would have to turn off defense programs to meet deep budget cuts an amendment would force.

Testifying before the Senate Appropriations Committee, Perry said if the amendment is adopted the U.S. defense posture would be vulnerable to two different problems: the impact on defense of moves to reach a zero deficit, and the effect on defense of the annual budget process under the amendment. The Senate will consider the amendment next week.

Perry said the range of assumptions to get to a balanced budget by 1999 would require defense cuts of \$60 billion over five years if revenues were increased and entitlements cut, or \$270 billion without either offsetting factor.

In the worst case, he said, there would be a host of cancellations including the F/A-18E/F and C-17 airlifter. The F-22 would be stretched out. The Comanche helicopter program would be reduced to a technology demonstration effort. DOD would have to terminate the CVN-76 aircraft carrier and the third Scawolf submarine.

Under leading questioning by Appropriations Chairman Sen. Robert C. Byrd (D-W.Va.), Perry indicated the present strategy of being able to fight two major regional conflicts almost simultaneously would have to be scrapped. Under a best-case assumption, he said, U.S. forces could fight one regional conflict and under the worst case "not even one."

Perry said that the balanced budget amendment would do away with the present approach of "reducing our forces and budgets substantially and prudently."

Instead, he continued, defense spending would be reduced to whatever level its arbitrary formula dictated. "I do not believe such an approach to questions of national security would serve America well," he added.